

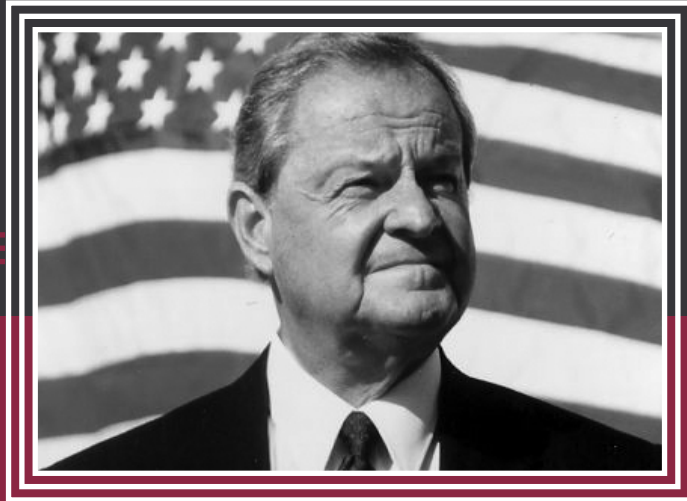
# PERF

I N D I A N A

*Funding your future.*

2003 COMPREHENSIVE  
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003



FRANK O'BANNON  
1930-2003

“We in Indiana have had an ongoing argument about the definition of a Hoosier.  
I think we know the definition of a Hoosier: It’s Frank O’ Bannon.”

—Governor Joseph Kernan, Sept. 19, 2003



2003 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PUBLIC EMPLOYEES' RETIREMENT FUND

1977 AND 1985 JUDGES' RETIREMENT SYSTEM

EXCISE POLICE & CONSERVATION  
ENFORCEMENT OFFICERS' RETIREMENT PLAN

1977 POLICE OFFICERS' AND FIREFIGHTERS'  
PENSION AND DISABILITY FUND

LEGISLATORS' RETIREMENT SYSTEM  
– DEFINED BENEFIT PLAN  
– DEFINED CONTRIBUTION PLAN

PROSECUTING ATTORNEYS' RETIREMENT FUND

PENSION RELIEF FUND

STATE EMPLOYEES' DEATH BENEFIT FUND

PUBLIC SAFETY OFFICERS' SPECIAL DEATH BENEFIT FUND

PREPARED BY  
PUBLIC EMPLOYEES' RETIREMENT FUND OF INDIANA  
HARRISON BUILDING  
143 WEST MARKET STREET  
INDIANAPOLIS, INDIANA 46204



## TABLE OF CONTENTS

### INTRODUCTORY SECTION

- 4 Letter of Transmittal
- 8 Board Chairman's Letter
- 9 Board of Trustees
- 10 Organization Chart

#### Fund Highlights

- 12 Public Employees' Retirement Fund
- 14 1977 and 1985 Judges' Retirement System
- 16 Excise Police and Conservation Enforcement Officers' Retirement Plan
- 18 1977 Police Officers' and Firefighters' Pension and Disability Fund
- 20 Legislators' Retirement System – Defined Benefit Plan
- 22 Prosecuting Attorneys' Retirement Fund

### FINANCIAL SECTION

- 27 Independent Auditors' Report
- 28 Management's Discussion & Analysis

#### Financial Statements

- 32 Combined Statement of Fiduciary Net Assets
- 34 Combined Statement of Changes in Fiduciary Net Assets
- 36 Notes to the Financial Statements

#### Required Supplementary Information

- 49 Schedule of Funding Progress
- 50 Schedule of Employer Contributions
- 51 Notes to Required Supplementary Information

#### Other Supplementary Information

- 52 Administrative Expenses
- 53 Investment Expenses
- 54 Contractual and Professional Services Expenses

### INVESTMENT SECTION

- 56 Report on Investment Activity
- 58 Outline of Investment Policies
- 59 Investment Highlights
- 64 List of Largest Assets Held
- 65 Schedules of Commission Fees
- 66 Investment Professionals

### ACTUARIAL SECTION

- 68 Actuary's Certification Letter
- 70 Summary of Actuarial Assumptions and Methods
- 73 Reconciliation of Changes in Unfunded Actuarial Accrued Liabilities
- 74 Solvency Test
- 76 Schedules of Active Member Valuation Data
- 77 Schedules of Retirants and Beneficiaries

### STATISTICAL SECTION

- 80 Schedule of Additions by Source
- 81 Schedule of Deductions by Type
- 82 Schedule of Benefit Deductions by Type
- 83 Schedule of Benefit Recipients by Type of Benefit Option
- 84 Schedule of Average Benefit Payments
- 87 Schedule of Participating Employers

A dark red background featuring a faint, semi-transparent grid of financial data, including various numbers and a line graph showing an upward trend.

## INTRODUCTORY SECTION

A light beige background featuring a faint, semi-transparent grid of financial data, including various numbers and a line graph showing an upward trend. Overlaid on the left side is a close-up, high-contrast image of a woman's face, looking slightly to the right.

LETTER OF TRANSMITTAL  
4

BOARD CHAIRMAN'S LETTER  
8

BOARD OF TRUSTEES  
9

ORGANIZATION CHART  
10

FUND HIGHLIGHTS  
12

2003 COMPREHENSIVE  
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003



## LETTER OF TRANSMITTAL

CRAIG E. HARTZER  
EXECUTIVE DIRECTOR

May 1, 2004

Dear Board Members:

It is my responsibility to present the 2003 Comprehensive Annual Financial Report of the Public Employees' Retirement Fund of Indiana (PERF or the Fund) for the fiscal year ended June 30, 2003. A complete copy of this report is also available on the PERF Web site ([www.perf.in.gov](http://www.perf.in.gov)).

With this report, PERF is introducing a new identification package, which includes the logo, a redesigned Web site, branded materials and renovated facilities. These changes herald our commitment to improve our services and responsiveness to our Indiana public employers, our members and their families. As of June 30, 2003, PERF remains responsible for the investment of more than \$10 billion in combined assets. In total, PERF paid monthly retirement, disability and survivor benefits to approximately 57,000 monthly benefit recipients, served approximately 155,000 members actively employed in public service, processed 23,500 new member-record applications, and worked in partnership with 1,044 public employers across Indiana.

***The Public Employees' Retirement Fund of Indiana***

This report provides detailed information on the performance for all retirement plans administered by PERF, including the:

- Public Employees' Retirement Fund,
- 1977 and 1985 Judges' Retirement System,
- Excise Police and Conservation Enforcement Officers' Retirement Plan,
- 1977 Police Officers' and Firefighters' Pension and Disability Fund,
- Legislators' Retirement System (Defined Benefit Plan and Defined Contribution Plan), and
- Prosecuting Attorneys' Retirement Fund.

PERF also administers two special death benefit funds for public safety officers and state employees who die in the line of duty. In addition, the Fund manages the Pension Relief Fund, which was created by the General Assembly to address the unfunded pension obligations of the police officers' and firefighters' pension systems of Indiana's cities and towns. PERF is not responsible for the administration of those local pension funds, which have been

closed to new membership since the creation of the 1977 Police Officers' and Firefighters' Pension and Disability Fund. However, PERF does manage the assets of the Pension Relief Fund and makes disbursements twice a year to the local police and firefighter units throughout the state that are still obliged to pay benefits.

**MANAGEMENT'S RESPONSIBILITY FOR  
FINANCIAL REPORTING**

The Fund's management prepared the financial statements included in this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. The Fund's management is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge, the enclosed data are accurate in all material respects and are reported in a manner designed to fairly present the financial position and results of the Fund's operations.

Our external auditors, the Indiana State Board of Accounts, have conducted an audit of the general purpose financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they deem necessary to express an opinion in their report to the Board. The external auditors also have full and unrestricted access to the Board to discuss their audit and related findings as to the integrity of the financial reporting and adequacy of internal control systems.

The State Board of Accounts completed their review of the Fund's financial statements for fiscal year ended June 30, 2003, on April 14, 2004. The resulting reports were very disappointing. They discuss several issues and internal control weaknesses that were years in the making and must be addressed. We have hired a firm that will specifically deal with the reserve reconciliation that caused us to receive a qualified audit opinion. To improve internal controls, we will select a firm to review and analyze different operations and procedures at PERF. The firm will make recommendations to improve our operations, processes, and related internal controls. We take these findings very seriously and view the reports of the State Board of Accounts as guides to making improvements at PERF. These problems will take time to resolve, but we are committed to correct all the issues disclosed in these reports.



## LETTER OF TRANSMITTAL *(continued)*

### ***The Comprehensive Annual Financial Report (CAFR)***

The 2003 Comprehensive Annual Financial Report is presented in five sections.

- The Introductory Section contains the transmittal letter, the Board Chairman's letter, and identification of the Fund's administrative organization and professional consultants, as well as highlights for each of the retirement plans administered by the Fund.
- The Financial Section contains the auditor's opinion letter, the Management Discussion and Analysis, the financial statements audited by the Indiana State Board of Accounts, the notes to the financial statements, and supplementary information of the plans.
- The Investment Section contains information on the Fund's investment performance and a list of the Fund's largest holdings.
- The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics.
- The Statistical Section contains tables of significant data pertaining to the plans.

### ***Reporting Financial Information***

The Fund's management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization. Management is also charged with recording these transactions as necessary to maintain accountability for assets, and to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes the written policies and procedures of the Board.

For financial reporting purposes, the Fund follows Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefits Pension Plans and Note Disclosures for Defined Contribution Plans. Assets of the Fund are presented at fair value. The actuarial value of assets and the actuarial accrued liability are presented in the required supplementary information following the notes to the financial statements.

The GASB issued Statement No. 34 Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments. This Statement establishes financial reporting standards for state and local governments. The requirements of this Statement are discussed further within the financial notes beginning on page 36. The Management Discussion and Analysis is contained within the Financial Section and serves to supplement the Introductory Section of the Comprehensive Annual Financial Report, as well as financial statements, notes and supplementary information within the Financial Section.

### **MANAGEMENT'S RESPONSIBILITY TO MEMBERS**

PERF management faces an increasingly complex array of investment responsibilities, and legislative, tax code, and plan provision changes. Making our responsibilities even more trying this past year, the Fund was faced, and has responded vigorously, to three criminal attempts to defraud the organization. In August 2002, the recently employed Chief Benefits Officer was discovered to have submitted false identity documents to secure employment with the Fund and hide an undisclosed federal conviction for identity theft. This person was convicted in federal court for charges unrelated to his employment at PERF. Additionally, two temporary employees engaged in bank fraud in attempts to steal funds from PERF members. To date, all three are in jail.

In all cases, PERF has moved aggressively to aid criminal investigations, to fully comply with all inspections of PERF records by law enforcement authorities, and to reduce the likelihood of future incidents like this. Members have been assured their account balances will not be adversely affected.

PERF has chosen to meet these challenges head-on and in the open with new initiatives to address security issues, and renewed commitments to its two essential functions: investing members' money and paying benefits through world-class customer service.

### ***Management Changes***

While addressing the challenges of the recent past, PERF is shifting its focus to the future. In January 2003, I accepted the position of Executive Director, moving to PERF from the Department of Workforce Development where I had been Commissioner for five years. Other new senior management persons hired to date include Chief Benefits Officer, Bruce Kimery, who was also named to the newly created position of Deputy Director, Chief Financial Officer, Michael Horstman, and Leisa Julian, General Counsel.

### ***Data and Identity Integrity***

A financial institution operating in a world increasingly dependent on long distance electronic access must focus on its internal operations to ensure both security and integrity. PERF has integrated some of the best operational practices of financial institutions across the country by:

- Printing only the last four digits of Social Security number on checks, statements of account, electronic fund transfer notices, and general correspondence.
- Eliminating reliance on temporary workers and temporary employment agencies.
- Requiring extensive background checks and fingerprinting on all current and prospective employees.
- Expanding the internal audit staff and establishing new processes to monitor financial activity within the funds administered by PERF.
- Engaging a cyber-security firm to recommend short and long-term improvements to physical and technical security.
- Further limiting access to both information and personnel in sensitive areas of the PERF offices in Indianapolis.

## LETTER OF TRANSMITTAL *(continued)*

### **Improving Member Services**

PERF has been fully engaged over the past few years in enhancing its operational focus on member services. We will continue to hold ourselves accountable for delivering the world-class service we promise. Progress toward that goal is demonstrated in the following areas:

- Pension and disability disbursements in excess of \$365 million.
- Refund of contributions and interest disbursements in excess of \$32 million.
- Pension Relief disbursements to local government entities in excess of \$96 million.
- The new Call Center answered more than 100,000 inquiries, with a 97 percent answer rate and 30 second speed of answer in its first year of operation, and responded to 2,407 e-mails, with an average response time within 7 business hours.
- The state's early retirement incentive program was fully implemented and saw 1,384 members take advantage of the incentive.
- Benefits Administration processed 1,141 requests of estimate for retirement benefits.
- The New Member Records Division processed 23,500 new member applications this year.
- The Retirements Division reduced the time it takes to get someone their first retirement check from 90 days on July 1, 2002 to approximately 60 days on June 30, 2003.
- The Outreach Division conducted 198 distance education meetings throughout the state and met with more than 8,400 members this year.

A letter sent by a PERF member, who was seeking information about applying for disability retirement benefits, reflects the positive impact of these efforts. "I want someone to know how special Jim (a customer service representative) was on the phone. Jim gives government employees a good name." These are the responses and stories that we want to become the norm upon which we build in the future.

PERF is also focused on improvements to the physical facilities in which employees are asked to do their best and to which customers come for service. Major renovations to four floors of the PERF offices at 143 West Market in Indianapolis will consolidate services in one safe, secure, handicapped-accessible facility. The centerpiece of the renovation is the new Customer Service Center.

### **Improving Employer Service**

PERF is committed to supporting more than 1,000 public agency employers throughout Indiana who help provide benefit services to members and their families. In the coming year, new and expanded initiatives will:

- Provide regular on-line and printed publications containing necessary information regarding plan provisions and information submission.

- Increase outreach activities to employers, including training sessions, to support reduction of errors on applications and new member forms by at least 5 percent.
- Continue the implementation of electronic employer reporting and test the waters on expanding the types of information employers can submit to PERF electronically.

Our employers' proximity to their employees—our members—makes them essential partners in administering the PERF plan on a local level.

PERF has been actively engaged in a change management process that we anticipate will, in the coming fiscal year, result in measurable improvements in business processes throughout our operations. Alongside representatives from our employer population, public employee and retired member associations, and the union representing state employees, we are pursuing goals that will make the vision of world-class performance by PERF a reality!

### **Expanded Options**

PERF now offers six, self-directed investment alternatives within the Annuity Savings Accounts (ASA) program of the PERF plan and the Legislators' Retirement System Defined Contribution Plan. Since 2001, members have been able to contribute up to an additional 10% of post-tax wages and salary to their ASA accounts above the mandatory 3% contribution. In 2003, a private letter ruling from the IRS now allows qualified members to voluntarily contribute on a pre-tax basis, as well.

### **Economic Condition**

The Fund's economic condition is based primarily upon investment results and contributions from members and employers. Mercer Investment Consulting evaluated the year end investment portfolio. The return comparison begins on page 61.

### **Investments**

While financial markets remain volatile, PERF's investments performance is testimony to the appropriate strategies endorsed over the last few years by our elected officials, especially the late Governor Frank O'Bannon, whose quiet confidence and warm personal touch will be sorely missed. Within the universe of public funds, performance of the Consolidated Retirement Investment Fund (CRIF) rose from the top 28 percent three years ago to the top 25 percent in this fiscal year. As of June 30, 2003, CRIF represented one of the top 200 defined benefit plans when compared to all master trusts, both public and private.

The Investment Section includes an in-depth discussion of the Consolidated Retirement Investment Fund (CRIF) and the Investment Policies guiding the PERF Board of Trustees decision-making, on page 58. Despite continued uncertainty in world affairs, and volatility in the markets, the CRIF improved the rate of return to 4.7 percent, besting the Index return benchmark, and ranking in the top third among its public fund peers. The Board

## LETTER OF TRANSMITTAL *(continued)*

continues to progress in diversifying the portfolio and adjusting its risk and return profile to deliver sufficient growth and earnings to meet benefit obligations.

### **Asset Allocation**

Prudent diversification through strategic asset allocation is fundamental to the Board's overall investment policy. The policy is designed to provide an optimal mix of asset classes in order to meet the Fund's return objectives, while maintaining appropriate diversification and risk control. PERF continues to incorporate traditional assets (cash, domestic and international stocks, and domestic fixed income) while initiating efforts to begin incorporating nontraditional assets (real estate and private equity) into the target asset mix.

The investment portfolio mix at fair value for fiscal year ended June 30, 2003 was approximately 39 percent fixed income and 61 percent equities. The equity portfolio is comprised of 47 percent domestic equity and 14 percent international and global equity at June 30. Less than one percent had been allocated to alternative investments at that date.

### **Funding**

Funding levels represent the "bottom line" of any retirement system. A well-funded plan shows participants assets are irrevocably committed to the payment of the benefit promise. Adequate funding levels reflect the ratio of greater total accumulated assets compared to lesser total actuarial accrued liabilities, resulting in a reduced reliance on contributions. Although weak markets lead to absolute returns with performance below actuarial assumptions of 7.25 percent, CRIF still paid more than \$500 million in pension obligations in the fiscal year. Funding status and progress for the plans are presented in the Required Supplementary Information Schedule of Funding Progress on page 49.

The accumulated balance of funds derived from the excess of additions over deductions is referred to as the "net assets held in trust for pension benefits" in the Combined Statement of Changes in Fiduciary Net Assets in the Financial Section of this report. The actuarial accrued liability is not disclosed in the financial statements but is disclosed in the required supplementary information schedules following the notes to the financial statements.

The actuarial accrued liability of the Fund is a measure of the present value of actuarial accrued liabilities estimated to be payable in the future to current retirees, beneficiaries, and employees for service earned to date. The percentage computed by dividing the actuarial value of net assets available for benefits by the actuarial accrued liability is generally referred to as the "funding ratio." This ratio provides an indication of the funding status of the plan and generally, the greater this percentage, the stronger the plan.

### **Actuarial Survey and Valuation**

An actuarial review of the Fund is performed annually. An assumption experience study is performed every three to five years.

The actuarial firm, McCready and Keene, completed the actuarial reviews and valuations and served as technical advisor to the Fund. Actuarial certification and supporting statistics are included in the Actuarial and Statistical Sections of this report.

### **Acknowledgements**

Particular recognition must be given to the contributions of the late Governor Frank O'Bannon. As a member of PERF with more than 35 years of public service, his leadership helped launch the transformation of the Fund into the kind of independent, customer-focused, responsible fiduciary institution that is consistent with its stature as one of the oldest and largest public pension funds in the country. Governor Joseph Kernan, the Pension Management Oversight Commission and the General Assembly maintain their support of PERF's strategic direction. Especially critical, are the efforts of the Board, the staff, the advisors, and the employers who have worked so diligently to ensure the Public Employees' Retirement Fund of Indiana remains responsive to our various constituencies. We are happy to report our successes in this area and hope this recognition instills confidence that PERF is fulfilling its fiduciary responsibilities with a high degree of integrity.

We have worked through several challenges in the past year, and we know we will be presented with a new set of opportunities in the coming year. Together with our members and employer partners, the Fund will continue taking bold steps forward as we seek to thrive within the ever-changing landscape of the retirement and financial services industry.

Sincerely,



Craig E. Hartzer  
Executive Director

## BOARD CHAIRMAN'S LETTER

HARRISON BUILDING • 143 WEST MARKET STREET • INDIANAPOLIS, INDIANA 46204

May 1, 2004

Dear Members of the Public Employees' Retirement Fund of Indiana:

On behalf of the Board of Trustees, it is my pleasure to present the Comprehensive Annual Financial Report for fiscal year ended June 30, 2003. Please spend a few moments to review this report about the performance of your Fund for last year.

This year, PERF faced challenges to our operations and stood witness to tragic changes to our state's leadership with the death of Governor O'Bannon. Despite these events, the Fund remains secure, safe, and rock solid as one of the largest and oldest public pension funds in the country.

We are now focusing on taking advantage of new opportunities. This year, we engaged in an extensive security review, with the goal of improving our data and physical security, as well as making our organization more accessible to the public. We have expanded staff of high quality, ethical, and motivated employees. The entire staff is focused on education, strategic goal setting, and business process improvements in order to reach new levels of customer service over the next five years. They have charged themselves with the consistent improvement of PERF's ranking among peers in the public funds universe.

The financial health of the Fund is a key component to helping PERF members and their families realize the goal of financial security in retirement. The Board remains committed to investment policies that will ensure healthy growth of fund income, security of member assets, and retention of public confidence. We are nearing the full diversification of the portfolio among a variety of carefully selected securities in various asset classes. This is key to achieving the health and financial stability that will see the Fund through the inevitable economic cycles we will face in the future.

A familiar voice was replaced by new expertise on the Board this year. Nancy Turner stepped aside in 2003. This remarkable woman, who rose from a clerk's position to Head of Archives and Special Collections at Ball State University Libraries, served for 11 years with dedication and a special commitment to the education of all members. Robert V. Welch, Jr., who brings extensive investment experience, replaced Ms. Turner.

Since its inception in 1945, PERF has taken very seriously the trust placed in it by its members, their families, and the employers who fund the system. We are proud of the gains we have made in improving our efficiency and effectiveness. We are pleased that members and employers continue to take advantage of the expanding array of services provided. Most importantly, we are committed to the pursuit of the highest quality service possible for PERF members and the many participating units of government so significantly involved in the financial stability of the Fund.

Sincerely,



Jonathan L. Birge  
Chairman, Board of Trustees

## PUBLIC EMPLOYEES' RETIREMENT FUND OF INDIANA BOARD OF TRUSTEES



**Jonathan Birge, Chair**  
Appointed: 1999



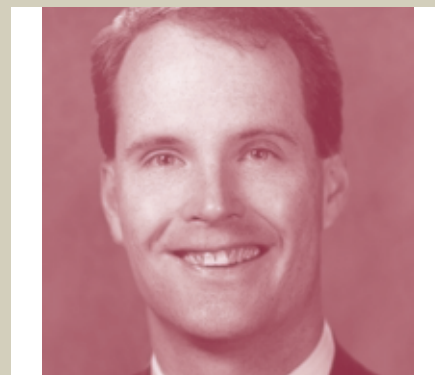
**Richard Doermer, Vice Chair**  
Appointed: 1976



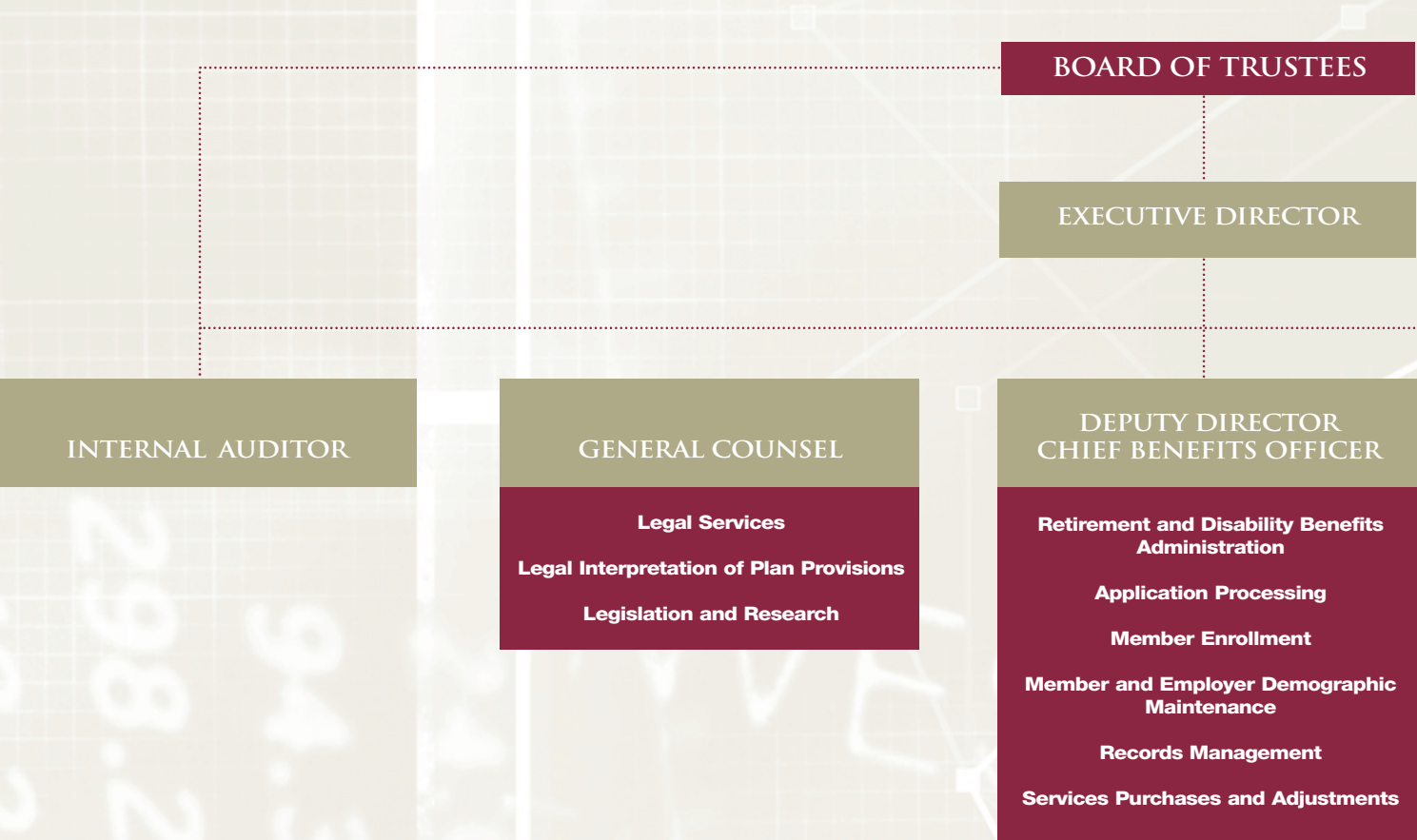
**Garland Ferrell**  
Appointed: 2002



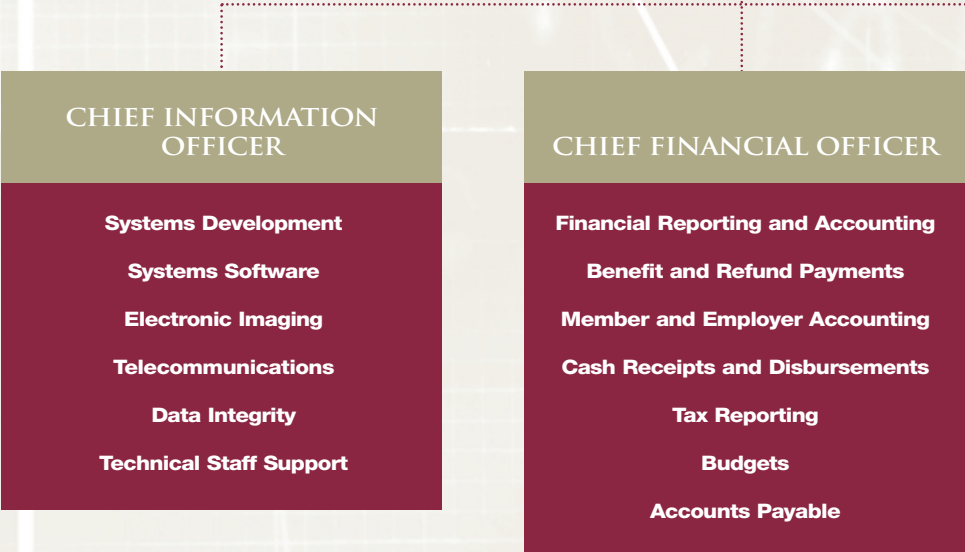
**Connie Thurman**  
Appointed: 2002



**Robert Welch**  
Appointed: 2003



ORGANIZATION CHART



## CHIEF INVESTMENT OFFICER

**Manager and Consultant Relations**  
**Compliance**  
**Oversight of Custody Services**  
**Performance Reporting**

## DIRECTOR OF EXTERNAL AFFAIRS

**Public Policy and Media Relations**  
**Outreach and Field Services**  
**Call Center**  
**Fund Publications**

## DIRECTOR OF BENEFITS ADMINISTRATION

*Non-PERF Funds*

**Retirement and Disability Benefits Administration**  
**Application Processing**  
**Member Enrollment**  
**Member and Employer Demographic Maintenance**  
**Records Management**  
**Services Purchases and Adjustments**

Joseph E. Kernan  
*Governor*

Katherine L. Davis  
*Lt. Governor*

### Administrative Staff

Craig E. Hartzer  
*Executive Director*

Diann Clift  
*Chief Information Officer*

Michael Horstman  
*Chief Financial Officer*

Leisa I. Julian  
*General Counsel*

Bruce Kimery  
*Deputy Director*  
*Chief Benefits Officer*

Patrick W. Lane  
*Director of External Affairs*

R. Thomas Parker  
*Director, Benefits Administration*  
*Non-PERF Funds*

### Professional Consultants

#### Actuary

McCready and Keene, Inc.  
 7941 Castleway Drive  
 P.O. Box 50460  
 Indianapolis, IN 46250-0460

#### Auditor

Indiana State Board of Accounts  
 302 West Washington Street  
 4th Floor, Room E418  
 Indianapolis, IN 46204-2765

#### Investments

Burnley Associates, Inc.  
 300 East Fifth Avenue  
 Suite 470  
 Naperville, IL 60563

Mercer Investment Consulting  
 10 South Wacker Drive  
 Suite 1500  
 Chicago, IL 60606

Strategic Investment Solutions, Inc.  
 601 California Street, Suite 200  
 San Francisco, CA 94108

*Refer to page 66 for a complete list of Investment Professionals employed by PERE*

## FUND HIGHLIGHTS

### PUBLIC EMPLOYEES' RETIREMENT FUND

#### Composite Picture

##### Total Membership

Active (In-Service)	143,234
Terminated Vested	11,572
Benefit Recipients	54,769
Average Annual Benefit	\$ 5,163

##### Active Members

Average age	46.4 years
Average years of service	10.4 years
Average annual salary	\$ 26,891

##### Benefit Recipients

New Recipients	3,490
----------------	-------

#### Membership

The Public Employees' Retirement Fund includes eligible state and local government employees.

#### Receiving Retirement Benefits

Age	Years of Service	Allowance Reduction
50 up to 59	15 or more	11% at age 59, additional 5% for each year under age 59
55	Age at retirement plus total years of service equals 85 or more	None
60	15 or more	None
65	10 or more	None
65	8 or more*	None

\*A member who has at least 8 years of PERF service as a County Clerk, County Auditor, County Recorder, County Treasurer, County Sheriff, or County Coroner is eligible for normal retirement after reaching age 65. This change in the law applies only to members retiring after June 30, 2002. SB 269 also provides that a member serving as State Auditor, State Treasurer, or Secretary of State and whose term commences after the November 5, 2002, election be vested with at least 8 years of creditable service.

#### Service Benefit Formula

$$(\text{Years of Creditable Service} \times \text{Average Annual Compensation} \times .011) + \text{Annuity Savings Account}^*$$

\*Members can elect at retirement to receive their Annuity Savings Account as a monthly supplement to their defined pension benefit or in a total distribution.

#### Cost of Living Allowance

Cost of living allowances are passed by the Indiana General Assembly on an ad-hoc basis.

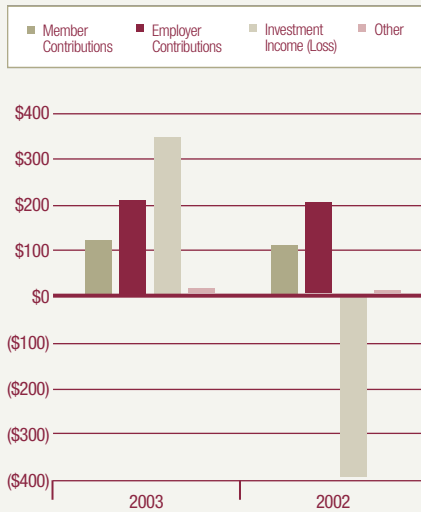
#### Contribution Rates

- Members are required to contribute 3% of gross wages to the Annuity Savings Account. Employers have the option of making all or part of this contribution on behalf of the member.
- Members may also voluntarily contribute up to an additional 10% of their post-tax wages into the Annuity Savings Account.
- Employer contributions are adopted by the Board of Trustees based on recommendations by the Fund's actuary.

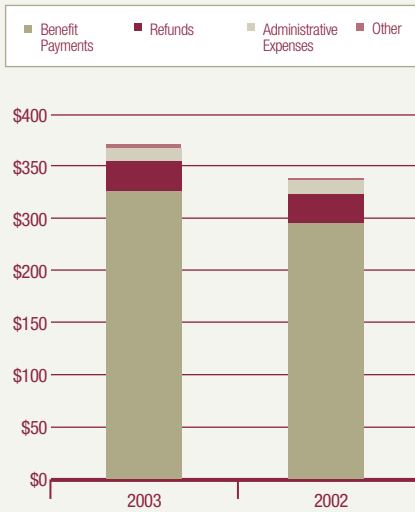
## FUND HIGHLIGHTS

### PUBLIC EMPLOYEES' RETIREMENT FUND

**Additions by Source**  
(in millions)



**Deductions by Type**  
(in millions)



**Funding Progress**  
(in millions) (with funding ratios)



For fiscal year ended June 30,  
(in millions)

#### Additions by Source

	2003	2002
Member Contributions	\$ 128.8	\$ 119.4
Employer Contributions	213.4	208.0
Investment Income (loss)	341.0	(389.3)
Other	2.2	1.7
<b>Totals</b>	<b>685.9</b>	<b>(60.2)</b>

For fiscal year ended June 30,  
(in millions)

#### Deductions by Type

	2003	2002
Benefit Payments	\$ 322.8	\$ 297.3
Refunds	29.6	29.1
Administrative Expenses	9.2	14.6
Other	3.8	1.3
<b>Totals</b>	<b>365.4</b>	<b>342.3</b>

Actuarial study as of July 1,  
(in millions)

#### Funding Progress

	2002	2001
Actuarial Value of Assets	\$ 8,995	\$ 8,723
Actuarial Value of Liabilities	9,066	8,306

**Funding Ratios** 99.2% 105.0%

#### Annuity Savings Account

In addition to the employer-financed defined benefit pension, the Public Employees' Retirement Fund benefits structure also includes the Annuity Savings Account. The purpose of the Annuity Savings Account is to help public employees of state and local governments save for their retirement by allowing them to invest in a number of different investment funds.

While employer-provided retirement and Social Security are valuable sources of retirement income, they are only a part of the total retirement picture. Employees can begin investing their own money in a long-term savings plan and take responsibility for their future retirement income.

The plan provides the following benefits:

- Convenient, automatic payroll deductions,
- Six investment options,
- Tax deferred savings,
- Roll over funds into qualified plan or IRA upon termination or retirement,
- Upon death, funds transfer to beneficiaries,
- Immediate vesting, and
- Low investment and administrative fees.

#### Total Annuity Savings Account Assets

##### Annuity Savings Account

(in millions)

As of June 30,	<b>2002</b>	\$1,839
	<b>2003</b>	\$1,982

## FUND HIGHLIGHTS

### 1977 AND 1985 JUDGES' RETIREMENT SYSTEM

#### Composite Picture

##### Total Membership

Active (In-Service)	282
Terminated Vested	73
Benefit Recipients	255
Average Annual Benefit	\$ 34,174

##### Active Members

Average age	52.7 years
Average years of service	9.8 years
Average annual salary	\$ 91,507

##### Benefit Recipients

New Recipients	19
----------------	----

#### Membership

The 1977 and 1985 Judges' Retirement System includes justices and judges of the Supreme Court, appellate, circuit, superior, criminal, probate, juvenile, and municipal courts.

#### Receiving Retirement Benefits

Age	Years of Service	Allowance Reduction
55	Age at retirement plus total years of service equals 85 or more	None
62	8 or more	0.1% for each month that retirement precedes age 65
65	8 or more	None

#### Service Benefit Formula

Salary at Retirement<sup>1</sup> x Percentage Below

Years of Service	Percentage	Years of Service	Percentage
8	24%	16	54%
9	27%	17	55%
10	30%	18	56%
11	33%	19	57%
12	50%	20	58%
13	51%	21	59%
14	52%	22 or more	60%
15	53%		

<sup>1</sup>Benefit calculations for the 1977 System are based on the current salary of the judge's position from which they retired. The 1985 System uses the salary paid to the judge when they retired.

#### Cost of Living Allowance

For the 1977 System, the cost of living allowance is a percentage increase equal to the increase in the salary of the judges' position from which the judge retired. There is no cost of living allowance in the 1985 System. There is no cost of living allowance for survivor benefits.

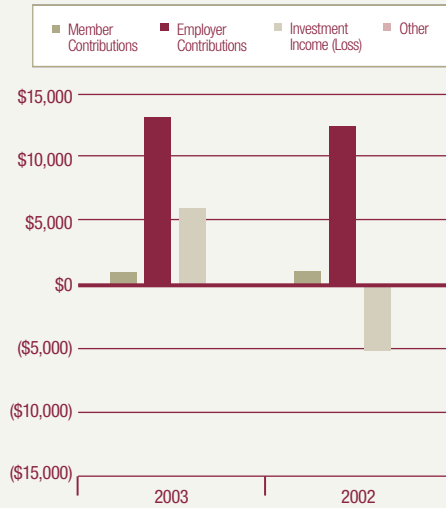
#### Contribution Rates

- Employees contribute 6% of the judge's statutory salary until 22 years of service have been completed.
- Employer contributions are determined by the General Assembly as biennial appropriations from the State's General Fund.

## FUND HIGHLIGHTS

### 1977 AND 1985 JUDGES' RETIREMENT SYSTEM

**Additions by Source**  
(in thousands)



**Deductions by Type**  
(in thousands)



**Funding Progress**  
(in millions) (with funding ratios)



For fiscal year ended June 30,  
(in thousands)

#### Additions by Source

	2003	2002
Member Contributions	\$ 1,558	\$ 1,515
Employer Contributions	13,276	12,543
Investment Income (loss)	6,238	(5,198)
Other	—	—
<b>Totals</b>	<b>21,072</b>	<b>8,860</b>

For fiscal year ended June 30,  
(in thousands)

#### Deductions by Type

	2003	2002
Benefit Payments	\$ 8,611	\$ 8,355
Refunds	46	2
Administrative Expenses	110	250
Other	—	—
<b>Totals</b>	<b>8,767</b>	<b>8,607</b>

Actuarial study as of July 1,  
(in millions)

#### Funding Progress

	2002	2001
Actuarial Value of Assets	\$ 121.2	\$ 115.0
Actuarial Value of Liabilities	188.4	188.6

<b>Funding Ratios</b>	<b>64.3%</b>	<b>61.0%</b>
-----------------------	--------------	--------------

## FUND HIGHLIGHTS

### EXCISE POLICE AND CONSERVATION ENFORCEMENT OFFICERS' RETIREMENT PLAN

#### Composite Picture

##### Total Membership

Active (In-Service)	254
Terminated Vested	1
Benefit Recipients	131
Average Annual Benefit	\$ 12,651

##### Active Members

Average age	42.1 years
Average years of service	16.9 years
Average annual salary	\$ 47,446

##### Benefit Recipients

Benefit Recipients	7
--------------------	---

#### Membership

The Excise Police and Conservation Enforcement Officers' Retirement Plan includes employees of both the Department of Natural Resources and the Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

#### Receiving Retirement Benefits

Age	Years of Service	Allowance Reduction
45	15 or more	0.25% for each full month that retirement precedes age 60
55	Age at retirement plus total years of service equals 85 or more	None
60	15 or more	None

#### Service Benefit Formula

25%<sup>1</sup> x Average Annual Salary<sup>2</sup>

<sup>1</sup>This percentage is increased by 1-2/3% of average annual salary for each completed year of creditable service after 10 years (up to 25 years) and by 1% for each year of creditable service after 25 years.

<sup>2</sup>Average Annual Salary means the average annual salary of an officer during the 5 years of highest annual salary in the 10 years immediately preceding an officer's retirement date.

#### Cost of Living Allowance

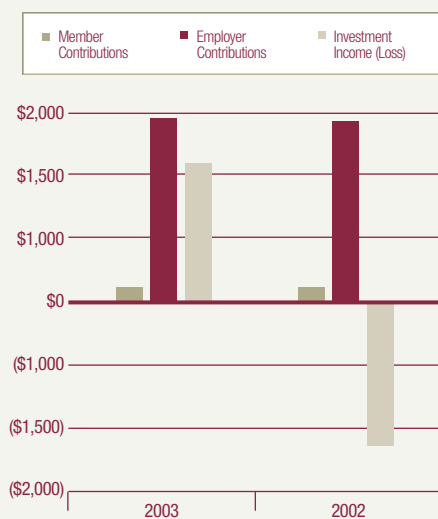
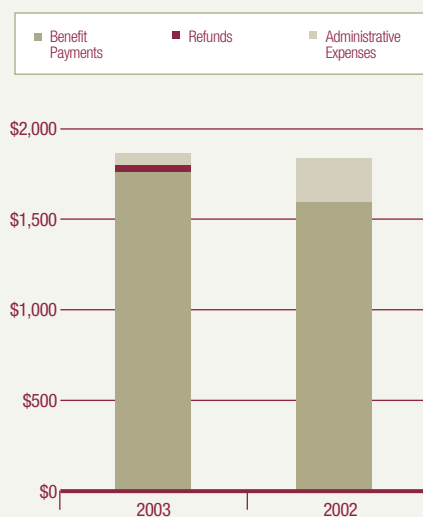
Cost of living allowance is equal to any ad-hoc cost of living allowance enacted for PERE

#### Contribution Rates

- Member rates equal 3% of the first \$8,500 of annual salary (maximum contribution is \$255 per year).
- Employer contributions are adopted by the Board of Trustees based on recommendations by the Fund's actuary.

## FUND HIGHLIGHTS

## EXCISE POLICE AND CONSERVATION ENFORCEMENT OFFICERS' RETIREMENT PLAN

**Additions by Source**  
(in thousands)**Deductions by Type**  
(in thousands)**Funding Progress**  
(in millions) (with funding ratios)For fiscal year ended June 30,  
(in thousands)**Additions by Source**

	2003	2002
Member Contributions	\$ 68	\$ 69
Employer Contributions	1,951	1,904
Investment Income (loss)	1,627	(1,687)
Totals	3,646	286

For fiscal year ended June 30,  
(in thousands)**Deductions by Type**

	2003	2002
Benefit Payments	\$ 1,711	\$ 1,571
Refunds	40	—
Administrative Expenses	40	239
Totals	1,791	1,810

Actuarial study as of July 1,  
(in millions)**Funding Progress**

	2002	2001
Actuarial Value of Assets	\$ 37.4	\$ 36.9
Actuarial Value of Liabilities	55.9	52.0

**Funding Ratios**

66.9%	71.0%
-------	-------



## FUND HIGHLIGHTS

### 1977 POLICE OFFICERS' AND FIREFIGHTERS' PENSION AND DISABILITY FUND

#### Composite Picture

##### Total Membership

Active (In-Service) .....	10,179
Terminated Vested .....	70
Benefit Recipients .....	1,975
Average Annual Benefit .....	\$16,928

##### Active Members

Average age .....	37.6 years
Average years of service .....	10.1 years
Average annual salary .....	\$ 37,195

##### Benefit Recipients

New Recipients .....	119
----------------------	-----

#### Membership

The 1977 Police Officers' and Firefighters' Pension and Disability Fund includes eligible state and local police officers and firefighters.

#### Receiving Retirement Benefits

Age	Years of Service	Allowance Reduction
50	20 or more	Actuarial allowance reduction
52	20 or more	None

#### Service Benefit Formula

Monthly benefit equal to 50%<sup>1</sup> of first-class salary for 20 years of service.

<sup>1</sup>This percentage is increased by 1% for each 6 months of active service accumulated after 20 years of service (to a maximum of 32 years, or 74%).

#### Cost of Living Allowance

Cost of living allowance is a percentage determined by statute equal to the change in the Consumer Price Index, but not in excess of a 3% increase.

#### Contribution Rates

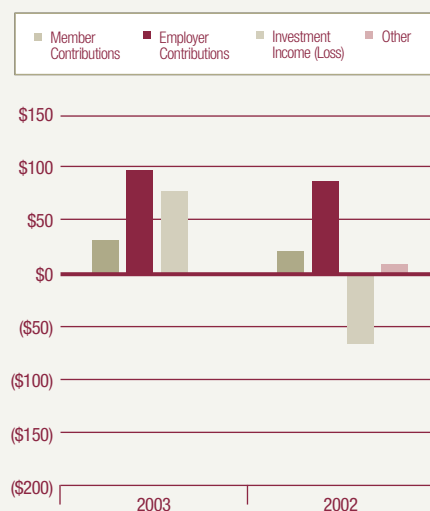
- Members contribute 6% of first-class salary. Employers have the option of making all or part of this contribution on behalf of the member.
- Employers contribute 21% of first-class salary.
- Employer contributions are adopted by the Board of Trustees based on recommendations by the Fund's actuary.

## FUND HIGHLIGHTS

## 1977 POLICE OFFICERS' AND FIREFIGHTERS' PENSION AND DISABILITY FUND

**Additions by Source**

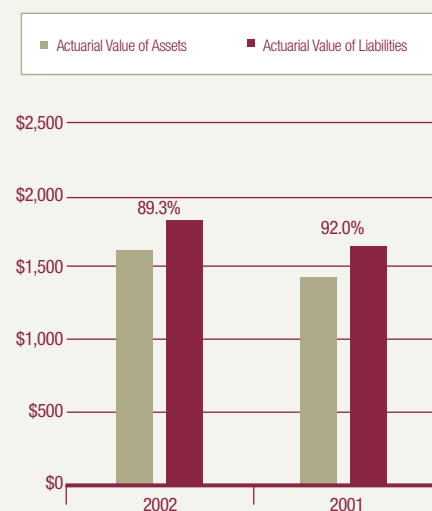
(in millions)

**Deductions by Type**

(in millions)

**Funding Progress**

(in millions) (with funding ratios)

For fiscal year ended June 30,  
(in millions)

2003

2002

**Additions by Source**

Member Contributions	\$ 30.4	\$ 23.8
Employer Contributions	94.9	85.1
Investment Income (loss)	79.2	(70.5)
Other	—	13.0
<b>Totals</b>	<b>204.5</b>	<b>38.4</b>

For fiscal year ended June 30,  
(in millions)

2003

2002

**Deductions by Type**

Benefit Payments	\$ 32.1	\$ 30.5
Refunds	2.3	2.1
Administrative Expenses	1.5	1.4
Other	—	—
<b>Totals</b>	<b>35.9</b>	<b>34.0</b>

Actuarial study as of Jan. 1,  
(in millions)

2002

2001

**Funding Progress**

Actuarial Value of Assets	\$ 1,615.0	\$ 1,491.0
Actuarial Value of Liabilities	1,808.8	1,620.3

**Funding Ratios**

89.3% 92.0%



## FUND HIGHLIGHTS

### LEGISLATORS' RETIREMENT SYSTEM-DEFINED BENEFIT PLAN\*

#### Composite Picture

##### Total Membership

Active (In-Service) .....	58
Terminated Vested .....	24
Benefit Recipients .....	38
Average Annual Benefit .....	\$ 6,822

##### Active Members

Average age .....	62.1 years
Average years of service .....	21.8 years
Average annual salary .....	\$ 31,314

##### Benefit Recipients

New Recipients .....	4
----------------------	---

#### Membership

The Legislators' Retirement System Defined Benefit Fund includes only legislators of the State of Indiana who were serving on April 30, 1989 and elected participation.

#### Receiving Retirement Benefits

Age	Years of Service	Allowance Reduction
55	10 or more <sup>1</sup>	Benefit reduced using early retirement formula <sup>2</sup>
55	Age at retirement plus total years of service as a member of the General Assembly equals 85 or more	None
65	10 or more <sup>3</sup>	None

<sup>1</sup>Have terminated service as a member of the General Assembly and is not receiving nor is entitled to receive a salary from the state.

<sup>2</sup>Early Retirement Benefit Formula:

Step 1: 780 months (65 years) – your age at retirement in full months = [x].

Step 2: If [x] is equal to or less than 60, then multiply [x] by 0.1% to obtain a product [y]. If [x] is greater than 60, then multiply 5/12% by the difference between 60 and the remainder [x]. Then take this product and add 6% to obtain a sum [y].

Step 3: Then subtract [y] from 100% to determine the percentage of your age 65 retirement benefit you receive.

<sup>3</sup>Have terminated service as a member of the General Assembly, are not receiving nor are entitled to receive a salary from the state, and are not receiving and have not previously received a reduced monthly benefit under this plan.

#### Service Benefit Formula

Lesser of:

- \$40 x Years of Service before November 8, 1989 or
- Highest Consecutive 3-year Annual Salary at Termination ÷ 12

#### Cost of Living Allowance

Cost of living allowance is equal to any ad-hoc cost of living allowance enacted for PERE

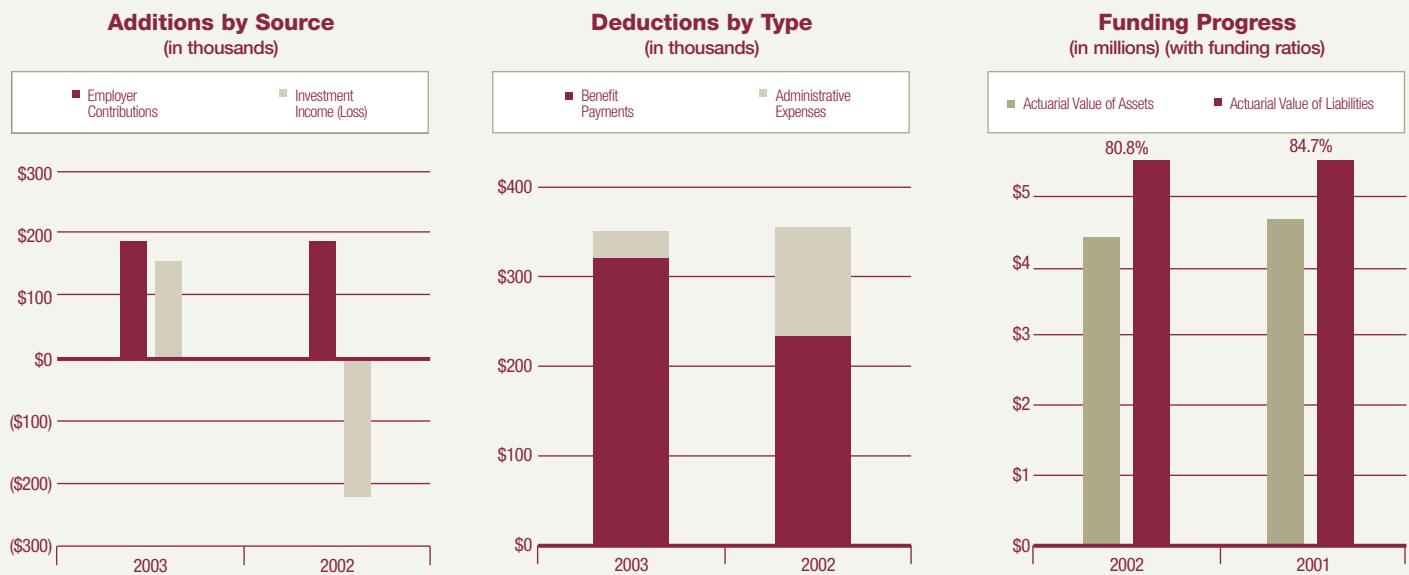
#### Contribution Rates

Employer contributions are adopted by the Board of Trustees based on recommendations by the Fund's actuary.

\*The Legislators' Retirement System also includes a defined contribution plan available to all legislators of the State of Indiana who serve in the General Assembly on or after April 30, 1989. Members contribute 5% of their annual salary. The State of Indiana contributes 20% of their members' annual salaries for service after June 30, 1989.

## FUND HIGHLIGHTS

### LEGISLATORS' RETIREMENT SYSTEM-DEFINED BENEFIT PLAN



For fiscal year ended June 30,  
(in thousands)

#### Additions by Source

	2003	2002
Employer Contributions	\$ 187	\$ 187
Investment Income (loss)	157	(233)
Totals	344	(46)

For fiscal year ended June 30,  
(in thousands)

#### Deductions by Type

	2003	2002
Benefit Payments	\$ 328	\$ 231
Administrative Expenses	23	133
Totals	351	364

Actuarial study as of July 1,  
(in millions)

#### Funding Progress

	2002	2001
Actuarial Value of Assets	\$ 4.45	\$ 4.67
Actuarial Value of Liabilities	5.50	5.51

#### Funding Ratios

	80.9%	84.7%
--	-------	-------



## FUND HIGHLIGHTS

### PROSECUTING ATTORNEYS' RETIREMENT FUND

#### Composite Picture

##### Total Membership

Active (In-Service)	205
Terminated Vested	16
Benefit Recipients	19
Average Annual Benefit	\$ 12,009

##### Active Members

Average age	46.3 years
Average years of service	7.7 years
Average annual salary	\$ 67,073

##### Benefit Recipients

New Recipients	2
----------------	---

#### Membership

The Prosecuting Attorneys' Retirement Fund includes prosecuting attorneys, chief deputy prosecuting attorneys, and deputy prosecuting attorneys paid by the state.

#### Receiving Retirement Benefits\*

Age	Years of Service	Allowance Reduction
62	10 or more	0.25% for each full month that retirement precedes age 65
65	10 or more	None

\* Benefits are reduced by any pension benefits payable from the Public Employees' Retirement Fund.

#### Service Benefit Formula

Highest Annual Salary (State Portion Only) at Retirement x Percentage Below

Years of Service	Percentage	Years of Service	Percentage
Less than 10	0%	16	54%
10	30%	17	55%
11	33%	18	56%
12	50%	19	57%
13	51%	20	58%
14	52%	21	59%
15	53%	22 or more	60%

#### Cost of Living Allowance

No cost of living allowance is available.

#### Contribution Rates

- Members contribute 6% of the state-paid portion of their annual salary.
- Employer contributions are adopted by the Board of Trustees based on recommendations by the Fund's actuary.

## FUND HIGHLIGHTS

### PROSECUTING ATTORNEYS' RETIREMENT FUND

**Additions by Source**  
(in thousands)



**Deductions by Type**  
(in thousands)



**Funding Progress**  
(in millions) (with funding ratios)



For fiscal year ended June 30,  
(in thousands)

#### Additions by Source

	2003	2002
Member Contributions	\$ 836	\$ 803
Employer Contributions	446	436
Investment Income (loss)	614	(524)
Totals	1,896	715

For fiscal year ended June 30,  
(in thousands)

#### Deductions by Type

	2003	2002
Benefit Payments	\$ 254	\$ 267
Refunds	172	49
Administrative Expenses	21	125
Totals	447	441

Actuarial study as of July 1,  
(in millions)

#### Funding Progress

	2002	2001
Actuarial Value of Assets	\$ 12.00	\$ 11.07
Actuarial Value of Liabilities	22.40	20.42

<b>Funding Ratios</b>	53.5%	54.2%
-----------------------	-------	-------